

INSTRUCTION CHANGES FOR FORM 39

Form 39
Part II, Section A

Line 9 Self-employment health insurance

Column A: A self-employed taxpayer may deduct costs paid after January 1, 2000, on his Idaho return, for medical insurance for himself, his spouse, and dependents if he cannot deduct the costs on his federal return due to the federal deduction being limited to 60%. To claim the deduction, you must have self-employment income taxable by Idaho. In Column A, enter the 40% not deducted on the federal return.

Column B: Enter the amount from line 5 of this worksheet.

1. Enter the amount of self-employment income reported on Form 43, line 13 (business income), line 19 (farm income), and line 18 (income from partnerships). _____
2. Enter the amount of self-employment income reported on Federal Form 1040, line 12 (business income), line 18 (farm Income), and line 17 (income from partnerships). _____
3. Divide line 1 by line 2 _____ %
4. Enter the amount from Column A _____
5. Allowable Idaho deduction. Multiply line 4 by line 3. _____

THE FOLLOWING INFORMATION FUTHER EXPLAINS THE IDAHO DEDUCTION FOR SELF-EMPLOYED HEALTH INSURANCE :

When is the Idaho deduction for health insurance costs of a self-employed individual allowed and how is it computed?

Idaho Code Section 63-3022O, Health Insurance Costs, was enacted during the 2000 legislative session, effective for tax years beginning on or after January 1, 2000. It provides as follows:

63-3022O. Health insurance costs. With respect to a taxpayer who is a self-employed individual treated as an employee pursuant to section 401(c)(1) of the Internal Revenue Code, an amount equal to the amount paid by the taxpayer during the taxable year for insurance, which constitutes medical care for the taxpayer and the spouse and dependents of the taxpayer which is not otherwise deductible by the taxpayer for federal income tax purposes because the applicable percentage for that taxable year as specified pursuant to section 162(l) of the Internal Revenue Code is less than one hundred percent (100%), shall be allowed as a deduction against taxable income.

The Idaho statute allows a self-employed individual to deduct the amount paid for health insurance for the taxpayer, spouse, and dependents that is not allowed due to the federal applicable percentage. The federal applicable percentage, or limitation of the amount allowed to be deducted, for tax year 2000 is 60%. This applicable percentage is scheduled to change to 70% for tax years beginning in 2002 and in tax year 2003 is scheduled to change to 100%.

The taxpayer may not be able to deduct 100% of the amount paid for health insurance due to other federal limitations. For example, no deduction is allowed for self-employed individuals to the extent that the deduction exceeds the individual's earned income (as defined in Section 401(c)) derived from the trade or business with respect to which the plan providing the medical care coverage was established. The deduction also is not available to any taxpayer for any calendar month during which the taxpayer is eligible to participate in any subsidized health plan maintained by any employer of the taxpayer or of the taxpayer's spouse.

In summary, the Idaho deduction is allowed only when the taxpayer is unable to take the full deduction of the amount paid for health insurance because the applicable percentage is less than 100%. If the federal deduction is limited for any other reason, the Idaho deduction is not allowed.

Examples:

The examples below follow the federal self-employed health insurance deduction worksheet found in the 1040 instructions.

Amount paid for health insurance coverage in	10,000	10,000	10,000
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2000 excluding amounts for any month eligible to participate in an employer-sponsored health plan			
Multiply amount above by applicable federal percent (60% for tax year 2000)	6,000	6,000	6,000
Net profit and other earned income from business in which the insurance plan is established, less deductions claimed on Form 1040, lines 27 & 29	10,000	8,000	4,000
Federal self-employed health insurance deduction	6,000	6,000	4,000
Idaho deduction (generally 40% for tax year 2000 unless other federal limitations apply)	4,000 ¹	2,000 ²	0 ³

Health Insurance Expenses Deducted as Itemized Deductions:

Claiming health insurance expenses as an itemized deduction will not affect the taxpayer's ability to claim the Idaho deduction allowed by Section 63-3022O, Idaho Code. Therefore, if the expense is allowed as an itemized deduction and an Idaho deduction under Section 63-3022O, Idaho Code, the individual can in effect "double dip" or receive two deductions for the health insurance expenses paid.

Self-Employed Individuals:

If a taxpayer qualifies as a self-employed individual for purposes of the federal deduction for self-employed health insurance, the individual will qualify as a self-employed individual for the Idaho deduction. This may include a "more than 2% shareholder" in an S corporation.

¹ The full 40% or \$4,000 is allowed since the federal deduction is limited only due to the applicable percentage being 60%.

² The full 40% is not allowed, since the deduction is limited to the amount of self-employment income. The deduction cannot exceed the taxpayer's earned income.

³ No Idaho deduction is allowed since the deduction is limited to the amount of self-employment income. The deduction cannot exceed the taxpayer's earned income.